HR/BENEFITS

Providing 401(k)s to Your Employees Just Got Easier. Here's What You Need to Know

Offering a retirement plan for your employees is now accessible--even for startups--because of the provisions in the SECURE Act. Here's what entrepreneurs need to know to get started.

BY CARRIE MCKEEGAN, CEO AND CO-FOUNDER, GREENBACK EXPAT TAX SERVICES @CPMCKEEGAN


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The President signed the SECURE Act (Setting Every Community Up for Retirement Enhancement) into law at the end of 2019. This is great news for anyone dreaming up or currently operating a startup, as it provides new and small businesses a way to offer retirement benefits for their employees. Another noteworthy provision of the bill permits entrepreneurs to integrate their previous retirement plans into the new plan, which is a stellar incentive for would-be entrepreneurs.

If you don't already offer a retirement plan, there are plenty of reasons you should start. You'll now be able to attract better talent that will see you as a long-term career choice. Further, this could be a way to reduce your tax liability. You could qualify for the retirement plans startup costs tax credit that the IRS offers, and employer contributions to qualified retirement plans are tax deductible in most cases.

How to use the SECURE Act

Ask any benefits department and they will tell you that running a retirement plan on your own can be an administrative nightmare. This new bill allows you to assimilate with other companies and have a centralized plan. Basically, employers can pool their resources in order to have a retirement program that performs all of the administrative duties and meets the requirements to be a qualified retirement plan. For many new and small businesses, this is the only way they could ever dream of offering their employees tax-advantaged retirement benefits.

Small business owners can link up through multi-employer plans (MEPs) and employ a pooled plan provider, who is the designated person or entity executing all of the administrative tasks. The person you choose to do this must register with the IRS and the Department of Labor and have a fiduciary bond for the plan before getting started.

First, check with your industry groups or local Chamber of Commerce to see what MEPs, if any, are already available. Then, use your connections to have group members in mind and come up with a plan you can agree on. That way, you're ready to go when these plans become available in 2021.

What the SECURE Act changed

All of the above was possible before, but the SECURE Act has made MEPs more accessible to business owners because there is no longer a requirement that the employers have common business relationships before connecting. Two entirely unrelated organizations of vastly differing sizes can now join together to save costs on retirement plan administration.

The other way the SECURE Act made this easier was by eliminating the "one bad apple rule," which essentially meant that if one employer violated the rules of the plan, all of the participating employers would be at risk. To violate the rules, all one company has to do is fail to satisfy the tax qualification rules, including those laid out by the IRS and the Department of Labor. These rules are complicated, to say the least. This rule placed substantial risk on the shoulders of startup entrepreneurs and it caused only business owners who had developed enormous trust in each other to attempt to form these plans together.

With these rules becoming somewhat more relaxed, MEPs will be more widely available and a lot easier to join. These plans will open up in 2021, but you can prepare now.

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